

Security services. A nonprofit organization that provides security services for residents and property owners of a particular community, who agree to voluntarily donate money at a specified hourly rate to defray the cost of the services, is carrying on a business with the general public in a manner similar to organizations operated for profit and does not qualify for exemption under section 501(c)(4) of the Code.

Advice has been requested whether, under the circumstances described below, a nonprofit organization that provides security services qualifies for exemption from Federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954.

The organization was formed to provide security services for residents and property owners of a particular community. Security services provided include emergency rescue service, guard service for homes, apartments, businesses, and construction projects, and motorcycle escorts for funeral processions. These services are regularly provided by the organization's members who are paid in accordance with an established wage scale. Contracts entered into with persons or firms desiring security services provide that such persons or firms agree to voluntarily donate to the organization certain monetary compensation at a specified rate per hour to defray cost and expense of performing the required services. Occasionally, the organization provides free security and rescue services if such services are necessary to protect life or property.

All of the organization's income is derived from the persons or firms for whom the security services are provided. Its disbursements are for operating expenses and salaries to members.

Section 501(c)(4) of the Code provides for the exemption from Federal income tax of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1(a)(2)(i) of the Income Tax Regulations provides that an organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community.

Section 1.501(c)(4)-1(a)(2)(ii) of the regulations provides that an organization is not operated primarily for the promotion of social welfare if its primary activity is carrying on a business with the general public in a manner similar to organizations that are operated for profit.

Organizations composed of individuals who perform essential hazardous duties such as firefighting and rescue services on a volunteer basis for the benefit of a community may qualify for

exemption under section 501(c)(4) of the Code. See, for example, Rev. Rul. 74-361, 1974-2 C.B. 159. However, by providing private security services on a regular basis in return for certain compensation, the organization is carrying on a business with the general public in a manner similar to organizations operated for profit. The business nature of the organization's operations is not affected merely because recipients of security services agree to pay compensation that is characterized by the parties as "voluntary donations." The fact that free security services are occasionally provided does not satisfy the requirements of the regulations that an organization be primarily engaged in promoting in some way the common good and general welfare of the people of the community.

Accordingly, the organization does not qualify for exemption from Federal income tax under section 501(c)(4) of the Code.